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Edwin L. Miller, Jr.
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Honorable Peter W. Rodino, Jr.
Charles H. Rogovin
Barbara A. Rowan
Frances A. Sclafani
Samuel K. Skinner
Honorable Potter Stewart
Honorable Strom Thurmond
Phyllis T. Wunsche

October 29, 1984

William J. Casey
Director of Central Intelligence
Central Intelligence Agency
Washington, D. C. 20505

Dear Director Casey:

I am pleased to present you with the attached copy of the first interim report of the President's Commission. The report was submitted to the President on October 25, 1984, and will be released publicly tomorrow. This study analyzes the problem of money laundering by organized crime, and proposes a number of remedial measures, including new legislation, to help prevent such activity.

I know that the CIA is vitally concerned with money laundering activities, and that you have provided us with important information which assisted the Commission to confront this problem. The Commission's report, I believe, sheds new light on strategies to make laundering schemes more difficult to conduct. If we can put an end to financial laundering schemes by members of sophisticated criminal cartels, we will have taken a major step in raising the costs of criminal activity and reducing the profit motive that motivates these groups. I also think that techniques to detect money laundering now under study may prove of value to the intelligence community.

We look forward to the continued opportunity to work with members of your staff or to answer any questions.

Sincerely,

James D. Harmon, Jr.

Enclosure

DCI
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President's Commission on Organized Crime

Interim Report to the President
and the
Attorney General

THE CASH CONNECTION
Organized Crime,
Financial Institutions,
and Money Laundering



October 1984

President's Commission on Organized Crime

Interim Report to the President
and the
Attorney General

THE CASH CONNECTION:
Organized Crime,
Financial Institutions,
and Money Laundering



PRESIDENT'S COMMISSION ON ORGANIZED CRIME**HONORABLE IRVING R. KAUFMAN, CHAIRMAN**

Jesse A. Brewer, Jr.

Manuel J. Reyes

Carol Corrigan

Honorable Peter W. Rodino, Jr.*

Justin J. Dintino

Charles H. Rogovin

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James D. Harmon, Jr.

Executive Director and Chief Counsel

* Commissioner Rodino, in view of his position as Chairman of the Committee on the Judiciary of the United States House of Representatives, takes no position concerning the recommendations included in Part III of this Report.

PRESIDENT'S COMM:

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Washington, D.C. 20005
202-786-3500

Chairman:
Honorable Irving R. Kaufman
Executive Director and
Chief Counsel:
James D. Harmon, Jr.

Honorable Ronald Reagan
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

Pursuant to Executive Order present the first interim report on Organized Crime. Since I accepted this Commission, the members of the Commission have been increasingly dismayed by the vast criminal enterprises and their proceeds of their illegal activities in this country and abroad. The career criminals has become a deservant the condemnation it deserves from officials and members of the b

This interim report, which is being made available in the United States by reason of a concerted effort by the members of the Commission. The report sets forth a number of legislative recommendations, a

As our study reveals, organized crime, when implemented, will arm the law enforcement authorities with the weapons of the narcotics trade and other criminal groups. The driving force to earn vast sums of money through its ill-gotten gains, the underworld.

PRESIDENT'S COMMISSION ON ORGANIZED CRIME

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Honorable Ronald Reagan
President of the United States
The White House
Washington, D.C. 20500

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Honorable Potter Stewart
Honorable Strom Thurmond
Phyllis T. Wunsche

Dear Mr. President:

Pursuant to Executive Order 12435 and Public Law 98-368, I present the first interim report of the President's Commission on Organized Crime. Since I accepted your appointment as Chairman of this Commission, the members of the Commission and I have become increasingly dismayed by the virtual impunity with which organized criminal enterprises and their members and affiliates "launder" the proceeds of their illegal activities through financial institutions in this country and abroad. This abuse of our financial system by career criminals has become a nationwide affliction, and thoroughly deserves the condemnation it has received from law enforcement officials and members of the business community.

This interim report, which examines the problems of money laundering in the United States by organized crime, is the culmination of a concerted effort by the members and staff of the Commission. The report sets forth a number of substantial administrative and legislative recommendations, as well as suggestions for voluntary action by the private sector.

As our study reveals, money laundering is the lifeblood of organized crime. The Commission believes that its recommendations, when implemented, will arm the financial community and law enforcement authorities with the weapons needed to strike at the very heart of the narcotics trade and other activities engaged in by organized criminal groups. The driving force of organized crime is the incentive to earn vast sums of money; without the ability to freely utilize its ill-gotten gains, the underworld will have been dealt a crippling blow.

Sincerely,

Irving R. Kaufman
Chairman

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EXECUTIVE SUMMARY

This first report of the Commission on Money Laundering examines the means by which criminal organizations finance their illegal activities through the use of financial institutions. It appears that organized criminal groups, particularly those involved in narcotics trafficking, have generated large amounts of income through their illegal activities and used financial institutions to launder hundreds of millions of dollars without detection or punishment.

Section One of the report details the methods used by organized criminal groups to launder money. It is evident from the report that La Cosa Nostra members have used financial institutions to launder billions of dollars. The report also determines exactly how much money has been laundered and provides an indication of the level of laundering.

The principal tool now utilized by organized criminal groups for money laundering is the Bank Secrecy Act. Under this act, financial institutions must file a Transaction Report (CTR) with the appropriate federal agency whenever a currency transaction exceeds \$10,000. A Currency or Monetary Instrument Report (CMIR) is filed whenever currency or monetary instruments are taken into or out of the United States. A Foreign Bank Account Report (FBAR) is required when a financial institution has a bank account in a foreign country with a balance of more than \$5,000. Although the CTR is an effective way to deter the act of money laundering, its effectiveness has been limited because the Act is administered and enforced by individual financial institutions.

Once a customer of a financial institution has been identified as being involved in money laundering, there is a criminal investigation. This is due to the fact that the financial institution must inform law enforcement authorities of the suspicious activity. The financial institution is required to process CTRs and CMIRs and report them to the Treasury Department in turn to the appropriate Federal agencies. Furthermore, the financial institution must provide information to the appropriate Federal agencies. Other agencies that could provide information include the FBI, the Drug Enforcement Administration, and the Internal Revenue Service.

EXECUTIVE SUMMARY

This first report of the Commission examines the problem of money laundering, the means by which one conceals the existence, illegal source, or illegal application of income, and then disguises that income to make it appear legitimate. While concealment of enormous amounts of illegally generated income would seem to pose a formidable challenge to organized criminal groups, professional money launderers have been known to launder hundreds of millions of dollars of these proceeds with virtual impunity.

Section One of the report details the problems of money laundering and law enforcement authorities' response to it. The scope of money laundering is evidenced by the broad array of participants—ranging from La Cosa Nostra members to casinos, motorcycle gangs, and Fortune 500 companies—seeking to launder money. Although it is difficult to determine exactly how much money is laundered annually, tracing the cash flow between the United States and foreign countries provides an indication of the level of laundering activity.

The principal tool now utilized to detect, measure, and punish money laundering is the Bank Secrecy Act. The Act requires that a Currency Transaction Report (CTR) must be filed by financial institutions whenever a currency transaction is more than \$10,000. In addition, a Currency or Monetary Instrument Report (CMIR) must be filed whenever currency or monetary instruments of more than \$5,000 are taken into or out of the United States. Finally, a Foreign Bank Account Report (FBAR) is required whenever a person has an account in a foreign bank of more than \$5,000. Although the Bank Secrecy Act has provided an effective way to deter the activities of money laundering, its effectiveness has been limited because of problems in the means by which the Act is administered and because of actions by certain financial institutions.

Once a customer of a financial institution is suspected of engaging in money laundering, there is a considerable delay before this information is confirmed. This is due to the reticence of financial institutions to inform law enforcement authorities of suspicious transactions, the time required to process CTRs and CMIRs, and the restrictions placed on the Treasury Department in transferring CTR and CMIR data to other Federal agencies. Furthermore, the Treasury Department alone bears the responsibility of monitoring and investigating money laundering. Other agencies that could provide additional investigative experience

and resources have been unable to share some of that responsibility because they lack jurisdiction.

Under the Bank Secrecy Act, Federal agencies lack important investigative techniques and resources which could be used effectively against money launderers. These include the use of court-authorized electronic surveillance for violations of the Act. In addition, there is an insufficient number of FBI, DEA, and IRS agents available to investigate money laundering-related violations. Finally, the effectiveness of the Bank Secrecy Act is limited because the civil and criminal penalties imposed by the Act are far too lenient to punish and deter money laundering. Unless a pattern of violations can be demonstrated, the Treasury Department can impose a civil penalty of no more than \$1,000 per violation, and Federal courts can sentence defendants to no more than one year in prison and \$1,000 per violation. This does not pose a significant threat to the individual whose laundering schemes have limitless financial potential.

Section Two of the report sets forth a number of case studies that demonstrate the diversity and magnitude of money laundering schemes. For example:

- In the Pizza Connection case, La Cosa Nostra members distributed heroin imported from Southeast Asia's Golden Triangle through pizza parlors in the United States, and then transferred the cash generated through New York to Switzerland and finally to Italy, where it was used to buy more heroin. Authorities estimate that at least \$25 million was laundered between October 1980 and September 1982.
- In the Great American Bank case, officers and employees of the bank received a fee for processing large amounts of cash without filing the required CTRs. More than \$94 million was laundered by the bank from December 1982 through April 1984 for the depositors, three narcotics organizations.
- People's Liberty Bank of Covington, Kentucky was involved in the laundering scheme of a Colombian citizen, Luis Pinto, who was involved in a cocaine ring. Pinto made large cash deposits, often close to \$300,000 at a time, and made withdrawals in the form of bank drafts or cashier's checks, usually in amounts that did not require the filing of CTRs. Pinto frequently made withdrawals of \$10,000 from several different branches in a single day to circumvent reporting requirements. Despite the suspect nature of Pinto's transactions, the bank never notified local or Federal law enforcement agencies.

These and other case studies highlight the difficulties faced by Federal agencies to detect, those involved in money laundering. Furthermore, the deliberate non-compliance demonstrated by some bank employees with the requirements of the Bank Secrecy Act is a serious problem. The Commission has found that the Federal law enforcement authorities are not fully informed about a customer from whom funds are derived. This lack of information makes it difficult for the Federal law enforcement authorities to detect and prevent money laundering. The Commission has recommended that the Federal law enforcement authorities take steps to improve their detection and prevention of money laundering.

Section Three of the report sets forth legislative recommendations and proposed voluntary action by financial institutions to combat money laundering. These proposed voluntary actions are designed to help ensure that the policies and procedures do not make them easy for money launderers to exploit. The proposed voluntary actions include the implementation of internal clearinghouses, the use of branch managers or assistant managers for completion of the CTR, the use of tellers, officers and other employees extensively both in the required training and the features common to money laundering, the implementation of internal clearinghouses, and the use of branch commercial activities to implement an internal clearinghouse at an early stage.

In addition, customers who are subject to the Bank Secrecy Act's reporting requirements should be subject to investigations as stringent as the decision to grant an exemption. Special attention should be given to officers. Furthermore, special attention should be given to such as the purchase or cashing of large amounts of currency, the change of large amounts of currency, and the relationship with the account holder.

The Commission's administrative action under the CTR, CMIR, and FBAR data mining will focus on identifying which countries are most involved in money laundering schemes, so that the Justice Department can take appropriate action in these areas; the granting of additional resources to the IRS, the FBI, and the DEA to effectively combat money laundering; the implementation of new regulations by the Treasury and financial institutions; and the informed law enforcement.

These and other case studies highlighted in the report make clear that while money laundering schemes may be difficult for law enforcement agencies to detect, those involving insider collusion are the most difficult. Furthermore, the deliberate indifference to suspect transactions demonstrated by some bank employees furthers money laundering. Also, Federal law enforcement authorities may not have access to needed information about a customer from a financial institution in an investigation of a laundering scheme because the Right to Financial Privacy Act does not authorize such disclosure. Finally, in some cases financial institutions have informed customers that they are the subject of a criminal investigation, thus hindering the conduct of these investigations.

Section Three of the report sets forth the Commission's administrative and legislative recommendations, as well as recommendations for voluntary action by financial institutions, to deal more effectively with money laundering. These proposed voluntary guidelines for the banking community are designed to help ensure that financial institutions' internal policies do not make them easy prey for money launderers. Either a branch manager or assistant manager should be made ultimately responsible for completion of the CTR and should be required to countersign the CTR. Tellers, officers and other employees should be trained more extensively both in the requirements of the Bank Secrecy Act and in the features common to money laundering. Financial institutions should implement an internal clearinghouse for all CTRs and CMIRs generated in branch commercial activities so that management can review compliance at an early stage.

In addition, customers who wish to be exempted from the Bank Secrecy Act's reporting requirements should be subjected to background investigations as stringent as those conducted on loan applicants. The decision to grant an exemption should be approved by at least two bank officers. Furthermore, special attention should be paid to activities which have been used in laundering schemes but which often evade review, such as the purchase or cashing of cashier's checks and deposits or exchange of large amounts of currency by an individual in a fiduciary relationship with the account holder.

The Commission's administrative recommendations include the use of CTR, CMIR, and FBAR data by the Treasury Department to determine which countries are most likely to be used in money laundering schemes, so that the Justice Department can focus its investigations on these areas; the granting of additional manpower and resources to the IRS, the FBI, and the DEA to investigate money laundering more effectively; the implementation of a procedure by the Secretary of the Treasury and financial institutions to expedite the process by which the institutions inform law enforcement authorities of violations of the

Act; the adoption of a procedure by the Treasury Department to discourage financial institutions from abusing the authority to grant customers exemptions from the requirements of the Act; and the inclusion of casinos in the Treasury Department regulations' definition of financial institutions under the Act.

The Commission's legislative recommendations include the passage of amendments to the Right to Financial Privacy Act that would permit a financial institution to disclose certain information to a law enforcement agency, to permit the agency to determine whether a formal investigation is warranted, and that ensure that financial institutions would not be subject to private damage actions for such disclosures or for failure to notify customers of such disclosures; amendments to the Bank Secrecy Act that would permit the Secretary of the Treasury to offer rewards for information regarding violations leading to penalties under the Act, and to transfer information from CTRs, CMIRs, or FBARs to other agencies as necessary for an investigation; amendments to the Bank Secrecy Act that would increase civil and criminal penalties for violations of the Act; and an amendment to Title III of the Omnibus Crime Control and Safe Streets Act of 1968, to include the criminal provisions of the Bank Secrecy Act as a predicate for the issuance of judicial orders authorizing interception of telephone calls, telexes, and other forms of wire or oral communications.

While these recommendations, if effected, could significantly enhance the ability of law enforcement authorities to hinder money laundering activity, none of them addresses the problem of money laundering directly. The money launderer who complies with the recordkeeping and reporting requirements of the Bank Secrecy Act, as has often been done, cannot be prosecuted unless it has been proven that he has violated another Federal statute. This report therefore proposes draft legislation, denominated the Financial Institutions Protection Act, that includes provisions to make the use of financial institutions by money launderers a criminal offense. Such legislation would give Federal law enforcement agents the authority to investigate money launderers and their couriers from the time that they enter financial institutions.

The Commission invites the response of the banking community to these recommendations and proposed legislation. Constructive dialogue between law enforcement and financial institutions is essential to the development of new procedures and legislation which will deny money launderers access to financial institutions for their illegally generated profits.

THE PRESIDENT'S COMMITTEE

The President's Commission
by Executive Order 12435 on July
the Commission to:

- Make a full and complete national assessment of organized crime;
- Define the nature of traditional organized crime groups and their income, and the nature of their income;
- Develop in-depth information on organized crime networks;
- Evaluate Federal laws pertaining to organized crime;
- Advise the President and the Attorney General on findings and actions which can best support law enforcement efforts directed against organized crime;
- Make recommendations concerning criminal and legislative improvements in the administration of justice; and
- Report to the President from time to time and submit its final report by March 1 of each year.

The Commission is authorized of witnesses and the production of testimony over a claim of the prior to seek the assistance of the Department of habeas corpus ad testificandum or the production of information the Commission may obtain, use data obtained by law enforcement agencies Crime Control and Safe Street from Federal departments a Act and the Privacy Act of 1974, under the Right to Financial Protection

The Commission is composed of
President, including its Chairman,
United States Court of Appeals f

Approved For Release 2008/10/24 : CIA-RDP86M00886R000200110022-7

MEMORANDUM FOR: Director, Office of Global Issues

FROM: Executive Assistant to the DDCI

Jim,

Dick Kerr offered your name up, suggesting that you or one of your people could give a general briefing on the flow of narcotics money, etc. I understand that while these people are not cleared at the present time, Justice is in the process of getting them clearances. Obviously the briefings will be geared to whatever clearances they have at the time. John wants to make sure that any information provided does not in any way shed any light on how this information is collected.

THURS



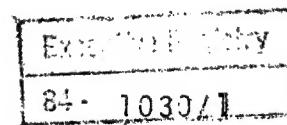
Date: 11 March 1984

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The Deputy Director of Central Intelligence

Washington, D.C. 20505



2 March 1984

Mr. John D. Harmon, Jr.
Executive Director and Chief Counsel
President's Commission on Organized Crime
Suite 700
1425 K Street, N.W.
Washington, D.C. 20005

Mr. Harmon:

I hope that you will understand that it would be inappropriate for CIA to provide a representative to a Commission looking into law enforcement matters. By law, the CIA is confined to collecting and analyzing foreign intelligence.

We would, however, be glad to provide whatever briefings that we can that might be helpful regarding your interests in the international flow of funds. [redacted] from our Directorate of Intelligence will get in touch with Mr. Gonzalez to make the appropriate arrangements.

We wish you well in this important endeavor.

/S/ John N. McMahon

John N. McMahon

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O/DDCI:DR/ami (1 March 1984)

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PRESIDENT'S COMMISSION ON ORGANIZED CRIME

Suite 700

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(202) 633-5589/5652

Executive Registry

84- 1030

Chairman:
Honorable Irving R. Kaufman

**Executive Director and
Chief Counsel:**
James D. Harmon, Jr.



February 22, 1984

Mr. John N. McMahon
Deputy Director
Central Intelligence Agency
Washington, DC 20505

Commissioners:
Phyllis T. Aranza
Jesse A. Brewer, Jr.
Carol Corrigan
Justin J. Dintino
William J. Guste, Jr.
Judith R. Hope
Philip R. Manuel
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Honorable Peter W. Rodino, Jr.
Charles H. Rogovin
Barbara A. Rowan
Frances A. Sclafani
Samuel K. Skinner
Honorable Potter Stewart
Honorable Strom Thurmond

Dear Mr. McMahon:

By executive order in late July of 1983, the President established the President's Commission on Organized Crime. The Commission was established to make a full and complete national and region-by-region analysis of organized crime; to define the nature of traditional organized crime as well as emerging organized crime groups, the sources and amounts of organized crime's income, and the uses to which organized crime puts its income; to develop in-depth information on the participants in organized crime networks; and to evaluate Federal laws pertinent to the effort to combat organized crime. Also, by March 31, 1986, the Commission is required to advise the President and the Attorney General with respect to its findings and actions which can be undertaken to improve law enforcement efforts directed against organized crime, and make recommendations concerning appropriate administrative and legislative improvements and improvements in the administration of justice.

As you can see, the mandate of the Commission is not limited to an analysis of the various factions of La Cosa Nostra, but includes also emerging groups such as motorcycle gangs and ethnically oriented criminal groups as well. Drawing upon the shared view of those in law enforcement that public exposure of criminal networks hampers their effectiveness in various ways, the Commission will hold public hearings around the country - all as part of the region-by-region analysis sought by the President. These hearings should include, in part, the presentation of evidence gathered in the course of criminal investigations, but not otherwise made public through criminal trials or otherwise.

-2-

Therefore, we solicit your ideas and suggestions to assist us in fulfilling the mandate from the President. In particular, we seek specific and precise ways in which law enforcement could deal better with organized criminal groups. Also, we value your advice on topics which you think the Commission might explore in public hearings, understanding that we expect to have subpoena power before long.

On March 14, 1984, the Commission will hold a hearing in New York regarding international money laundering schemes and the use of off-shore financial institutions. We request that your agency provide the services of [redacted] and [redacted] to assist us in preparing for this hearing.

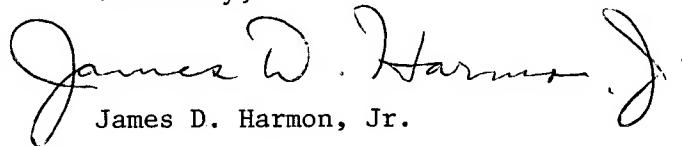
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If you wish to designate from your agency, a representative to the President's Commission on Organized Crime, please forward the name and address, position and telephone number to the Chief Investigator, Manuel J. Gonzalez, who may be reached at (202) 633-5589. From the viewpoint of the Commission this representative would serve as an invaluable contact point as we prepare to undertake an analysis of organized crime. Later, you may expect to be furnished with a roster of all of these representatives from this country and around the world.

We look forward to working with you.

Sincerely,



James D. Harmon, Jr.